# PERAC AUDIT REPORT

## Webster
## Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PHILIP Y. BROWN, ESQ., *Chairman* JOSEPH E. CONNARTON, *Executive Director*
Auditor SUZANNE M. BUMP | KATE FITZPATRICK | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. McCARTHY

January 15, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Webster Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

FIVE MIDDLESEX AVENUE, SUITE 304 | SOMERVILLE, MA 02145
PH 617 666 4446 | FAX 617 628 4002 | TTY 617 591 8917 | WWW.MASS.GOV/PERAC

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

**1. Appropriations:**

The assumed payment date is September 1, with the Town making half its payment in August and the other half in September. In Fiscal Year 2012 the Town paid the first half August 18, 2011, but did not pay the second half until July 12, 2012. Not only is this about 11 months late, it is also outside the fiscal year it should have been made in.

In Fiscal Year 2013 the first half was paid August 16, 2012, and then on September 27, 2012, the entire FY appropriation amount was paid, resulting in a 50% overpayment. The overpayment was returned to the Town in November 2012. This extra payment was caused in part by the confusion created by the late FY12 payment.

**Recommendation:** Appropriation payments should never be made outside of that fiscal year. If a payment is late the Board should send the Town an updated bill with interest added at the rate used in the actuarial valuation.

***Board Response:***

The Town Treasurer will make the appropriation payments when they are due on July 1st and September 15th of each year.

**2. Asset Allocation:**

The Board's investment policy lists the target percentage for cash as 1% of the portfolio, with an expected range of 0-3%. At the end of calendar year 2011, the Webster Retirement System had approximately 9% of its assets maintained in a liquid cash position. By the end of calendar year 2012, the percentage retained in cash had increased to nearly 15% of the portfolio. This happened because the FY13 appropriation payments of approximately $2.5 million were left in a bank account rather than invested with the Board's managers.

**Recommendation:** The Board should adhere to its own policy and reduce the amount of cash as soon as practicable.

To avoid this situation in the future, the Board should closely monitor its cash balances. The information that the administrator will be providing to Board members (see the third finding) will assist in this task.

A cash management process should be established. With more complete information, the Board's investment consultant can help advise the Board in determining which assets should be liquidated, and when, to meet the obligations of the System.

***Board Response:***

The Board Consultant was informed of the excess cash in the account, and they have done a rebalancing. Excess cash has been invested.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

**3. Monthly Financial Reporting:**

The only financial information that the Board members see on a monthly basis is each pooled fund manager's statement and the monthly performance summary from the investment consultant. They do not see bank reconciliations or any accounting. There also is no budget.

**Recommendation:** Each month the Board administrator should prepare a packet which consists of the following items:

- Cash reconciliation including bank statements
- Trial Balance
- Cash Receipts
- Cash Disbursements
- Adjusting Journal Entries
- Budget to Actual Expense Comparison (if not monthly, quarterly)
- Cash Flow Forecast

This process will assist the Retirement Board in the exercise of their fiduciary responsibilities. The distribution of additional financial data will provide a basis for formalizing the supervision of the system by the Retirement Board. It will also help to determine that Board policy is implemented and adhered to. A notation should be made in the minutes indicating that the documents have been presented to the Retirement Board.

During the audit, templates were provided to the administrator to help with the budget and the forecast. Given the coming reduction in future cash balances mentioned in the second finding, the forecast analysis becomes a crucial part of the Board's financial planning.

A draft of an annual budget should be prepared for the October Board meeting. Any changes to be made can be done by the end of the year so the budget is in place for January.

***Board Response:***

The Board members receive copies of all accounting procedures done monthly, including Cash Reconciliation and Bank Statements, Trial Balance, Cash Receipts, Cash Disbursements, Adjusting Journal Entries, Actual Expenses and Cash Flow.

**4. Board Member Attendance:**

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed 33% of meetings in 2011 and 2012. In 2013 this member missed 50% of the meetings and a second member missed 41% of the meetings. The result is an attendance rate for two Board members that is below the seventy-five percent minimum considered reasonable.

**Recommendation:** Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board might

# EXPLANATION OF FINDINGS AND RECOMMENDATIONS
# (Continued)

consider adjusting the schedule of Board meetings in order to better accommodate its members. It should be noted that Board members receive a stipend in consideration for regular attendance and participation at the monthly Board meetings. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements. Consideration may also be given to the adoption of remote participation under certain circumstances.

***Board Response:***
The Board members have made every effort to attend all scheduled monthly meetings. If a Board member is unable to attend certain scheduled meetings, the date of such meetings, on approval of the Board, will be rescheduled to accommodate the member.

**FINAL DETERMINATION**:
***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

| | AS OF DECEMBER 31, 2012 | 2011 |
|---|---|---|
| **Net Assets Available For Benefits:** | | |
| Cash | $3,514,421 | $1,742,624 |
| Pooled Domestic Equity Funds | 2,211,468 | 1,900,655 |
| Pooled International Equity Funds | 2,651,017 | 2,310,864 |
| Pooled Global Equity Funds | 5,658,101 | 4,888,553 |
| Pooled Domestic Fixed Income Funds | 5,145,958 | 4,558,558 |
| Pooled Alternative Investment Funds | 881,700 | 797,509 |
| Pooled Real Estate Funds | 2,196,162 | 1,929,594 |
| Hedge Funds | 1,913,863 | 1,766,242 |
| Accounts Receivable | 2,046 | 6,348 |
| Accounts Payable | (16,659) | (15,625) |
| **Total** | $24,158,077 | $19,885,321 |
| **Fund Balances:** | | |
| Annuity Savings Fund | $8,586,950 | $8,145,080 |
| Annuity Reserve Fund | 2,309,693 | 2,260,332 |
| Pension Fund | 1,453,833 | 0 |
| Military Service Fund | 0 | 0 |
| Expense Fund | 0 | 0 |
| Pension Reserve Fund | 11,807,602 | 9,479,910 |
| **Total** | $24,158,077 | $19,885,321 |

# STATEMENT OF CHANGES IN FUND BALANCES

| | Annuity Savings Fund | Annuity Reserve Fund | Pension Fund | Military Service Fund | Expense Fund | Pension Reserve Fund | Total All Funds |
|---|---|---|---|---|---|---|---|
| Beginning Balance (2011) | $7,524,655 | $2,336,970 | $718,421 | $0 | $0 | $10,080,090 | $20,660,137 |
| Receipts | 893,822 | 67,778 | 1,338,601 | 0 | 252,421 | (398,545) | 2,154,078 |
| Interfund Transfers | (199,884) | 202,377 | 199,143 | 0 | 0 | (201,635) | 0 |
| Disbursements | (73,513) | (346,793) | (2,256,165) | 0 | (252,421) | 0 | (2,928,893) |
| Ending Balance (2011) | 8,145,080 | 2,260,332 | 0 | 0 | 0 | 9,479,910 | 19,885,321 |
| Receipts | 900,649 | 65,864 | 3,777,329 | 0 | 257,945 | 2,327,692 | 7,329,479 |
| Interfund Transfers | (342,253) | 342,253 | 0 | 0 | 0 | 0 | 0 |
| Disbursements | (116,526) | (358,757) | (2,323,496) | 0 | (257,945) | 0 | (3,056,723) |
| Ending Balance (2012) | $8,586,950 | $2,309,693 | $1,453,833 | $0 | $0 | $11,807,602 | $24,158,077 |

# STATEMENT OF RECEIPTS

| | FOR THE PERIOD ENDING DECEMBER 31, 2012 | 2011 |
|---|---|---|
| **Annuity Savings Fund:** | | |
| Members Deductions | $849,385 | $815,033 |
| Transfers from Other Systems | 349 | 47,585 |
| Member Make Up Payments and Re-deposits | 2,893 | 12,218 |
| Member Payments from Rollovers | 28,831 | 0 |
| Investment Income Credited to Member Accounts | 19,191 | 18,986 |
| Sub Total | 900,649 | 893,822 |
| **Annuity Reserve Fund:** | | |
| Investment Income Credited to the Annuity Reserve Fund | 65,864 | 67,778 |
| **Pension Fund:** | | |
| 3 (8) (c) Reimbursements from Other Systems | 102,620 | 96,051 |
| Received from Commonwealth for COLA and Survivor Benefits | 50,559 | 16,934 |
| Pension Fund Appropriation | 3,624,149 | 1,225,616 |
| Sub Total | 3,777,329 | 1,338,601 |
| **Expense Fund:** | | |
| Investment Income Credited to the Expense Fund | 257,945 | 252,421 |
| **Pension Reserve Fund:** | | |
| Federal Grant Reimbursement | 6,030 | 9,146 |
| Interest Not Refunded | 8,697 | 0 |
| Excess Investment Income (Loss) | 2,312,964 | (407,691) |
| Sub Total (Loss) | 2,327,692 | (398,545) |
| **Total Receipts, Net** | $7,329,479 | $2,154,078 |

# STATEMENT OF DISBURSEMENTS

| | FOR THE PERIOD ENDING DECEMBER 31, | |
|---|---|---|
| | 2012 | 2011 |
| **Annuity Savings Fund:** | | |
| Refunds to Members | $108,601 | $56,156 |
| Transfers to Other Systems | 7,925 | 17,357 |
| Sub Total | 116,526 | 73,513 |
| **Annuity Reserve Fund:** | | |
| Annuities Paid | 358,757 | 346,793 |
| **Pension Fund:** | | |
| Pensions Paid: | | |
| Regular Pension Payments | 1,797,604 | 1,706,883 |
| Survivorship Payments | 82,481 | 85,538 |
| Ordinary Disability Payments | 11,892 | 29,605 |
| Accidental Disability Payments | 305,511 | 280,745 |
| Accidental Death Payments | 16,927 | 16,434 |
| 3 (8) (c) Reimbursements to Other Systems | 109,080 | 136,961 |
| Sub Total | 2,323,496 | 2,256,165 |
| **Expense Fund:** | | |
| Board Member Stipend | 15,174 | 15,174 |
| Salaries | 58,739 | 58,391 |
| Travel Expenses | 3,131 | 1,037 |
| Administrative Expenses | 1,429 | 1,309 |
| Education and Training | 1,430 | 810 |
| Furniture and Equipment | 99 | 1,148 |
| Management Fees | 90,498 | 89,811 |
| Custodial Fees | 32,004 | 30,000 |
| Consultant Fees | 40,000 | 40,000 |
| Service Contracts | 13,366 | 12,730 |
| Fiduciary Insurance | 2,075 | 2,011 |
| Sub Total | 257,945 | 252,421 |
| **Total Disbursements** | $3,056,723 | $2,928,893 |

# INVESTMENT INCOME

| | FOR THE PERIOD ENDING DECEMBER 31, 2012 | 2011 |
|---|---|---|
| **Investment Income Received From:** | | |
| Cash | $18,035 | $19,323 |
| Pooled or Mutual Funds | 463,228 | 399,964 |
| **Total Investment Income** | 481,263 | 419,287 |
| **Plus:** | | |
| Realized Gains | 278,784 | 507,884 |
| Unrealized Gains | 3,459,249 | 2,772,594 |
| Sub Total | 3,738,033 | 3,280,478 |
| **Less:** | | |
| Realized Loss | (48,787) | (237,076) |
| Unrealized Loss | (1,514,544) | (3,531,194) |
| Sub Total | (1,563,332) | (3,768,270) |
| **Net Investment Income** | 2,655,965 | (68,506) |
| **Income Required:** | | |
| Annuity Savings Fund | 19,191 | 18,986 |
| Annuity Reserve Fund | 65,864 | 67,778 |
| Expense Fund | 257,945 | 252,421 |
| **Total Income Required** | 343,001 | 339,185 |
| Net Investment Income | 2,655,965 | (68,506) |
| Less: Total Income Required | 343,001 | 339,185 |
| **Excess Income (Loss) To The Pension Reserve Fund** | $2,312,964 | ($407,691) |

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

| | AS OF DECEMBER 31, 2012 | |
|---|---|---|
| | MARKET VALUE | PERCENTAGE OF TOTAL ASSETS |
| Cash | $3,514,421 | 14.5% |
| Pooled Domestic Equity Funds | 2,211,468 | 9.1% |
| Pooled International Equity Funds | 2,651,017 | 11.0% |
| Pooled Global Equity Funds | 5,658,101 | 23.4% |
| Pooled Domestic Fixed Income Funds | 5,145,958 | 21.3% |
| Pooled Alternative Investment Funds | 881,700 | 3.6% |
| Pooled Real Estate Funds | 2,196,162 | 9.1% |
| Hedge Funds | 1,913,863 | 7.9% |
| **Grand Total** | $24,172,690 | 100.0% |

For the year ending December 31, 2012, the rate of return for the investments of the Webster Retirement System was 13.83%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Webster Retirement System averaged 3.15%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Webster Retirement System was 8.04%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

# SUPPLEMENTARY INVESTMENT REGULATIONS

The Webster Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

June 27, 2007
19.01(4), 19.01(8)
Having successfully diversified its portfolio by investing in real estate and private equity in recent years, the Webster Retirement Board is authorized to increase its holdings in real estate from 5% to 10% and its holdings in private equity from 3% to 5%. These higher limits currently apply to boards with assets in excess of $50 million for real estate and $25 million for private equity. Webster's assets are currently $18 million.

March 7, 2007
17.03
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Webster Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

December 10, 2003
16.08
The Webster Retirement Board is authorized to modify its investment management mandate with Loomis, Sayles & Company. After many years of utilizing Loomis Sayles as a balanced account manager, the Board has voted to retain Loomis only for fixed income. The Board will utilize a commingled fund, the Loomis Sayles Investment Grade Bond Fund, that has the same strategy and benchmark as the existing account. The Board has long been satisfied with Loomis Sayles' overall level of service.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Webster Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

**Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

**Group 2:**

Certain specified hazardous duty positions.

**Group 4:**

Police officers, firefighters, and other specified hazardous positions.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

| | |
|---|---|
| Prior to 1975: | 5% of regular compensation |
| 1975 - 1983: | 7% of regular compensation |
| 1984 to 6/30/96: | 8% of regular compensation |
| 7/1/96 to present: | 9% of regular compensation |
| 1979 to present: | an additional 2% of regular compensation in excess of $30,000. |

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

## RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

## RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

## SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

## DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

## DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

## ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $774.36 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

## ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $774.36 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of $100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

## DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Webster Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 9, 2009
Creditable Service – Call Firefighters
In the event that any call firefighter should take a full time position in any other department, whether it be in Webster, or in any other Town in the Commonwealth having a Retirement System regulated by PERAC, at retirement he or she will not be entitled to the one full year of creditable service for each year served as a call firefighter, but creditable service will be adjusted in accordance with General Laws, Chapter 32, Section 4(2)(b).

September 2, 2004
Buy-backs
An active police officer [who is a member of the retirement system] may buy back his or her permanent intermittent time, provisional full-time, or provisional part-time employment. If he or she wishes to pay back into the system for previous time worked, the calculation of creditable service will be based on actual hours worked. Overtime or extra paid details are not calculated in the buyback. Auxiliary and/or reserve status is not applicable to buy back.

January 13, 2004
Creditable Service – Call Firefighters
To allow call firefighters to receive one (1) year of creditable service for each full year of service in the Webster Fire Department, provided they are permanent call fire fighters with a stated weekly, monthly, or semi-annual rate of compensation. Call fire fighters of the Town of Webster not previously allowed into the Retirement System may request membership, and may buy back the time they were employed as a call firefighter and not eligible for membership, provided said member pays back into the system an amount equal to that which would have been deducted from wages, plus interest. Base salary only shall be considered regular compensation for deduction purposes and in the calculation of retirement benefits. The buy backs may be made in regular weekly or monthly payments, through payroll deduction, or other regular payments convenient for the member, but must be paid in full before retirement.

August 20, 2001
Creditable Service
In all cases involving part-time, provisional, temporary, temporary provisional, per diem, seasonal, or intermittent employment or service of any employee in any governmental unit prior to membership, said member shall be entitled to buy back said service, provided that said member subsequently became a member of the town of Webster Contributory Retirement System and said member pays back into the system an amount equal to that which would have been deducted from wages plus interest. Creditable service shall be computed to credit the member for that proportion of a normal year which the number of hours actually worked during that year bears to the normal working hours from the department under which the employee worked.

## NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 2, 1999
Buy-backs
Any member eligible to purchase military service under the provisions of Chapter 71 of the Acts of 1996 must render payment for the cost of such military service buyback in a lump sum payment or two installments, either of which must be made within a 12 month period commencing with the date of acceptance of the application by the Board.

January 19, 1999
Membership/eligibility
Membership is required for all full-time permanent Town of Webster employees, excluding School Department employees, who are scheduled to work a minimum of 31 1/2 hours per week. A full-time permanent town position shall be considered any position scheduled for continuous employment for a period of 52 calendar weeks during a year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence.

Town of Webster employees, excluding School Department employees, who are scheduled to work a minimum of 20 hours but less than 31 1/2 hours per week are considered permanent part-time employees. Such employees shall become members of the Webster Contributory Retirement System upon the completion of six months of calendar service. A permanent part-time position shall be considered any position scheduled for continuous employment for a period of 52 calendar weeks during a year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence.

All part-time, provisional, temporary, temporary provisional, seasonal or intermittent employees who are scheduled to work less than 20 hours per week and/or less than 52 calendar weeks of uninterrupted employment unless for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence are not eligible for membership into the Webster Retirement System.

June 14, 1996
Membership
New Police Academy recruits are not eligible to become members of the Webster Contributory Retirement System until successful completion of the Police Academy.

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

| | | | |
|---|---|---|---|
| Ex-officio Member: | Pamela Regis | | |
| Appointed Member: | Paul J. Minarik, Chairperson | Until a successor is appointed | |
| Elected Member: | Eleanor P. Doros | Term Expires: | 06/30/15 |
| Elected Member: | Louis T. Polletta | Term Expires: | 06/30/16 |
| Appointed Member: | Daniel Bonnette | Term Expires: | 12/31/17 |

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

| | | |
|---|---|---|
| | ) | Fidelity Insurance (employee dishonesty): |
| Ex-officio Member: | ) | $1,000,000 coverage with $10,000 deductible |
| Elected Members: | ) | issued through Travelers |
| Appointed Members: | ) | |
| Staff Employee: | ) | Fiduciary Insurance: |
| | | $50,000,000 coverage with $50,000 deductible |
| | | under a master MACRS sponsored policy issued |
| | | through a layered program with Travelers, |
| | | National Union Fire, and State National Insurance |

# NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2012.

| | |
|---|---|
| The actuarial liability for active members was | $22,798,409 |
| The actuarial liability for vested terminated members was | 383,586 |
| The actuarial liability for non-vested terminated members was | 162,761 |
| The actuarial liability for retired members was | 22,390,034 |
| The total actuarial liability was | $45,734,790 |
| System assets as of that date were (actuarial value) | 22,743,234 |
| The unfunded actuarial liability was | $22,991,556 |
| The ratio of system's assets to total actuarial liability was | 49.7% |
| As of that date the total covered employee payroll was | $8,864,531 |

The normal cost for employees on that date was 8.6% of payroll
The normal cost for the employer was 5.4% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012

| Actuarial Valuation Date | Actuarial Value of Assets ( a ) | Actuarial Accrued Liability ( b ) | Unfunded AAL (UAAL) ( b-a ) | Funded Ratio ( a/b ) | Covered Payroll ( c ) | UAAL as a % of Cov. Payroll ( (b-a)/c ) |
|---|---|---|---|---|---|---|
| 1/1/2012 | $22,743,234 | $45,734,790 | $22,991,556 | 49.7% | $8,864,531 | 259.4% |
| 1/1/2010 | $20,544,843 | $41,660,412 | $21,115,569 | 49.3% | $8,249,463 | 256.0% |
| 1/1/2008 | $18,848,406 | $38,118,310 | $19,269,904 | 49.4% | $7,720,918 | 249.6% |

# NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 6 - MEMBERSHIP EXHIBIT

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Retirement in Past Years** | | | | | | | | | | |
| Superannuation | 4 | 0 | 6 | 4 | 3 | 7 | 7 | 8 | 8 | 4 |
| Ordinary Disability | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accidental Disability | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| **Total Retirements** | 4 | 0 | 6 | 4 | 3 | 7 | 7 | 9 | 8 | 5 |
| Total Retirees, Beneficiaries and Survivors | 125 | 126 | 134 | 131 | 125 | 132 | 131 | 132 | 132 | 134 |
| Total Active Members | 198 | 236 | 241 | 245 | 245 | 236 | 252 | 248 | 254 | 260 |
| **Pension Payments** | | | | | | | | | | |
| Superannuation | $1,145,029 | $1,226,372 | $1,281,669 | $1,317,969 | $1,357,461 | $1,424,351 | $1,468,681 | $1,592,534 | $1,706,883 | $1,797,604 |
| Survivor/Beneficiary Payments | 87,414 | 81,984 | 77,894 | 75,498 | 78,190 | 76,574 | 74,802 | 81,731 | 85,538 | 82,481 |
| Ordinary Disability | 30,195 | 30,850 | 31,514 | 31,848 | 32,525 | 33,560 | 34,262 | 34,974 | 29,605 | 11,892 |
| Accidental Disability | 233,470 | 296,782 | 258,492 | 328,532 | 287,784 | 296,915 | 299,337 | 303,464 | 280,745 | 305,511 |
| Other | 101,413 | 113,340 | 94,328 | 114,213 | 111,441 | 121,846 | 122,316 | 98,476 | 153,394 | 126,007 |
| **Total Payments for Year** | $1,597,521 | $1,749,328 | $1,743,897 | $1,868,060 | $1,867,401 | $1,953,246 | $1,999,398 | $2,111,179 | $2,256,165 | $2,323,496 |

PERAC
Five Middlesex Avenue | Third Floor
Somerville, MA | 02145
Ph: 617.666.4446 | Fax: 617.628.4002
TTY: 617.591.8917 | Web: www.mass.gov/perac